CEC Workshop on Petroleum Infrastructure Best Permitting Practices

February 14, 2005

Presentation by the

Western States Petroleum Association

(WSPA)

Joe Sparano, President

What Are We Here For?

- Examine the State's limited petroleum infrastructure.
- Evaluate constraints on the State's petroleum refining, importing, storage, and pipeline systems, and protect existing infrastructure and facilities.
- Determine improvements in the permitting process that could facilitate existing and new infrastructure expansion and increase the State's supply of transportation fuels.
- Review current infrastructure permitting practices; which are productive, which need improvement; develop best practices.

What are We *Not* Here For?

- We are not here to usurp the authority of local government or local/regional regulatory agencies; we want to work cooperatively on infrastructure and permitting improvements with all stakeholders, including local and regional permitting authorities.
- We are not here to weaken CEQA - California has a complex regulatory structure and the solutions lie in all parties diving into the details together to "effectively and efficiently" design program and permitting improvements.
- We are not here to backslide on environmental protection – we want a balanced future energy base; one that is reliable, cost-effective, economically attractive, and environmentally responsible.

What we Do and Don't Support

- We support development of a balanced energy policy for the State, combining facilities and supply expansion with sound environmental protection initiatives.
- We do not support efforts to reduce demand (and therefore investment in additional production capacity) for the cleanest burning fuels on the planet, while California's supply/demand imbalance increases.
- We do support ways to increase supplies and promote a diversified energy portfolio, including continuing research into cost-effective alternative fuel solutions that are not mandated or subsidized.

Are We Heading for a Petroleum Infrastructure Emergency?

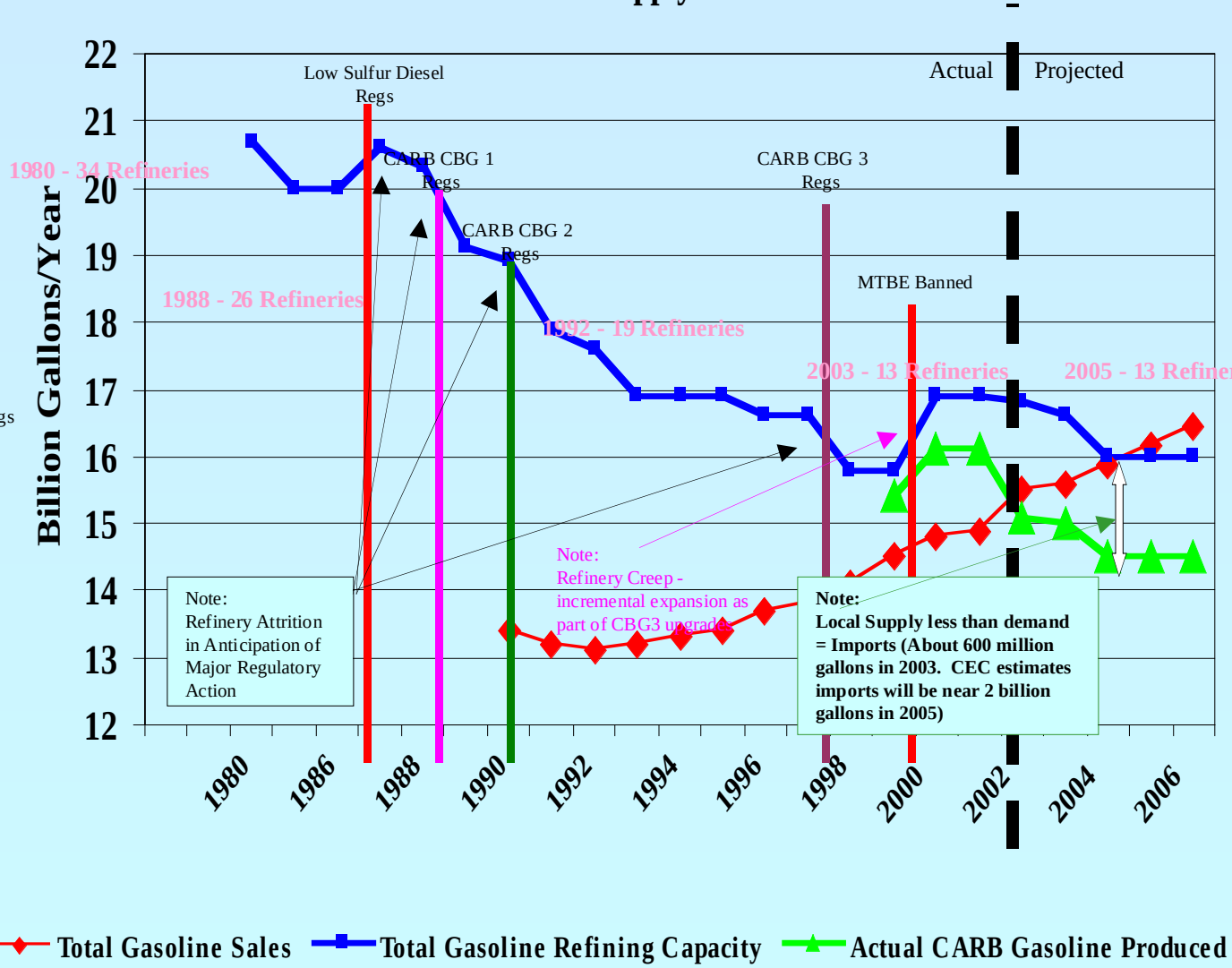
- Californians pay higher prices than the national average for gasoline and diesel fuel; there are many reasons (taxes, fuel island, fuel specs, investment climate, inadequate capacity and supply).
- Demand for petroleum fuels is expected to increase.
- Facilities that produce or import petroleum and petroleum products are at or near capacity.
- Infrastructure constraints create supply disruptions and thereby put upward pressure on prices; CA's fuel supply infrastructure needs strategic improvements.
- The petroleum industry is sensitive to consumers' questions about market volatility; Over the last 5 years, oil and gas profit margins have been very much in line with those of other U.S. industries.
- Business Week reports that during 3Q04, the U.S. oil industry profit margin averaged 6.9 %, compared to an average of 6.3 % for all U.S. industry. Preliminary profit margin results for 4Q04 show the US oil industry at 7.6%, and all US industry at 8.8%.

What is the Industry Situation?

- CA's growing fuel demand outstripping refiner capacity to supply; in early-1980's there were 34 refineries; now, 13 are left; no new refineries built in CA since 1969.
- CA is a fuel island - no pipeline access to product sources east of the Rockies; natural distance barrier of Pacific Ocean to the west; product specs are tighter in CA.
- Increasing reliance on importation of blending stocks and finished products; more remote/less secure sources of supply.
- Inadequate petroleum infrastructure for production, storage, and transportation of fuels efficiently throughout the region.

California Gasoline Supply/Demand Imbalance

1980 - 34 Refineries
- Chevron El Segundo
- Chevron Richmond
- Chevron Bakersfield
- Arco Carson
- Tosco Avon
- Mobil Torrance
- Exxon Benicia
- Shell Martinez
- Shell Carson
- Unocal Wilmington
- Pacific Hercules
- Unocal Rodeo
- Texaco Wilmington
- Champlin Wilmington
- Thrifty Santa Fe Springs
- Powerine Santa Fe Springs
- Edgington Long Beach
- Tosco Bakersfield
- Getty Bakersfield
- Fletcher Carson
- Ind. Valley Bakersfield
- Pacific Oasis Paramount
- USA Ventura
- Newhall Newhall
- Kern Bakersfield
- Martex Long Beach
- Beacon Hanford
- Golden Eagle Carson
- Sunland Bakersfield
- McMillan Long Beach
- Unocal Santa Maria
- Golden Eagle Carson
- Beacon Hanford
- Douglas Oil



2003 - 13 Refineries
Owner - location
(Crude Capacity)
- ChevronTX El Segundo (260,000 BPD)
- ChevronTX Richmond (225,000 BPD)
- BP Carson (260,000 BPD
- Tesoro Golden Eagle (166,000 BPD)
- Ex/Mobil Torrance (149,000 BPD)
- Valero Benicia (129,500 BPD)
- Valero Wilmington (80,900 BPD)
- Shell Martinez (159,250 BPD)
- Shell Bakersfield (66,000 BPD)
- Shell Wilmington (98,500 BPD)
- Conoco/Ph Wilmington (136,600 BPD)
- Conoco/Ph Rodeo (73,200 BPD)
- Kern Bakersfield (24,700 BPD)

Regulations Noted at Time of Announcement

Data Sources: CEC, EIA, CARB, Oil and Gas Journal

DNA Associates/Kahl Pownall Advocates
June 23, 2004

California's Petroleum Industry - Why Should You Care About Our Infrastructure?

- California is the largest gasoline consuming State and the 2nd largest diesel fuel and jet fuel consuming State.
- California is the 4th largest oil producing State.
- There are 9,500 service stations.
- Large network of pipelines for natural gas, crude & products.
- Vessels & marine terminals for deliveries and shipments.
- Extensive distribution system for products - terminals, trucking, P/L's, storage tanks.
- Government needs to ensure adequate and affordable transportation fuels and energy supplies for the State, to ensure economic growth and prosperity.

Why Are Petroleum Products Essential to California and the Bay Area

- The California petroleum industry provides 1,069,000 jobs (325,000 directly and 744,000 indirectly)
- In the Bay Area, the petroleum industry provides over 50,000 direct and indirect jobs
- $45 billion annual pay roll Statewide
- $77 billion contribution to state's gross product
- $8 billion per year in state taxes
- Economic multiplier effect of 3 jobs created for every one added in the industry

Our Environmental and Safety Performance

- With over $5 billion of investments since 1990, CA's 13 refineries produce about 20 billion gals./yr of the world's cleanest gasoline and diesel fuel.
- This results in reducing emissions by a billion pounds a year; emissions equal to taking 3.5 million cars a year off the road.
- Almost $1 billion more investments in infrastructure modifications were made in response to the ban on MTBE.
- We supported regulatory requirements for clean diesel buses and trucks, producing fuel that has helped reduce emissions by 85%.
- Statewide air quality is about twice as good today as it was in 1975 as measured by statewide ozone standards. Since 1979, reactive organic gas emissions have been reduced in the bay area over 75%. Bay Area is in attainment for the federal 1-hour standard (.12ppm) and expected to achieve the new, more stringent 8-hour standard (.08ppm).
- We have an exceptional safety record, statistically superior to most other industries and public/government agencies. Petroleum refining accounts for 1.2 injuries per 100 workers compared to 5.9 per 100 for all private industry in CA.

Why Does the Petroleum Industry Need a Change in Existing Permitting Practices?

- CA refining capacity has increased through improved processes by approx. 1.5%/yr since 1996; product demand increasing at double this rate.
- Many new infrastructure projects, plus maintenance and modification of existing infrastructure, needed to keep pace with the State's demand for energy.
- Historical CEQA permit processing practices likely won't be timely enough for changing infrastructure needs.
- Streamlined permit processes are required for expansion of existing as well as new facilities - whether used for conventional petroleum products or for alternative transportation fuels, to satisfy public demand.
- Petroleum facilities/required permits are complex; permit process can be time consuming, if not handled efficiently.
- No one permitting issue is the cause of all the problems.

Permitting – Examples of What Has Gone Right

- CBG and CaRFG3 refinery projects were approved – albeit with inconsistent approval timelines throughout the State.
- Current air district Accelerated Permit Process and Priority Permit Processing options moving in the right direction.
- Permit Streamlining Task Forces are being re-initiated.
- Bay Area dredging approvals expedited – local agency incorporating energy supply considerations into timelines without jeopardizing the environment, when energy consequences entered the policy debate.

Permitting – What Could Be Improved?

- Four Major Issues
  - Untenable timelines
  - Excessive data requirements
  - Inordinate mitigation requests
  - Excessive permit conditions

Petroleum Infrastructure Development Constraints

Permitting Issues		
Facility	**Issue**	**Category**
Refineries	Lengthy Permitting	Air
Refineries	Excessive Data Requests	Air
Refineries	Mitigation Measures	CEQA
Refineries	Lengthy Permitting	CEQA
Refineries	Excessive Data Requests	CEQA
Marine	Lengthy Permitting	CEQA
Marine	Excessive Costs	Land Use
Storage	Lengthy Permitting	Land Use
Refineries*	Uncertain Permitting Timelines and Costs	All
Terminals	Excessive Requirements	Water
* Projects canceled prior to initiating permitting process		

Permitting – Examples of Reasons for Project Delays or Project Cancellation

- Existing layers of permitting bureaucracy can be inefficient and overlapping.
- Ministerial permits, equipment changes and simple upgrades require long timelines.
- Unpredictable, lengthy and inconsistent permit and license application review process.
- Holding permits hostage to acceptance of onerous permit conditions.
- Routine applications scrutinized excessively.
- Unreasonable baseline determinations.
- Permit backlogs and processing not treated as customer service priority.
- Throughput limits on refinery units/equipment and ports.
- Repetitive CUP reviews for facilities.
- Flaring prohibition.
- Port planning requirements.

Permitting – Examples of Reasons for Project Delays or Project Cancellation

- Lack of consistency in permit conditions.
- Substantial data requirements without connection to environmental benefit.
- Requests for extraneous information.
- Excessively restrictive permit conditions.
- Excessive upfront information demands.
- Conflict between project schedules and applicant deadlines.
- Lack of emission reduction credits.
- Inconsistent and expansive cumulative impact requirements.
- Inconsistent and expansive risk assessment requirements.
- No consistent direction and scope regarding environmental justice issues.
- Barriers caused by protected species requirements.
- Lack of expedited permitting structure for small projects.
- Lack of coordination among multiple agencies.

Types of Projects

- Flare System
- Gasoline Reformulation
- CCR Modification
- FCCU Modernization
- Sulfur Reduction
- Hydrogen Plant
- Refinery Modernization
- Brine Treatment
- Alkylation Unit
- Security System
- Clean Diesel Fuel Unit
- Product Storage Tanks
- Wharf Lease Renewal
- Annual Dredging
- NPDES Renewal
- RCRA Renewal
- Vehicle Fueling Station
- Ethanol Storage Tanks

Potential Solutions

- Develop Best Permitting Practices Guideline document for use by local and state permitting agencies; promote consistent policies and practices that “connect the dots.”
  - Projects that increase reliability and efficiency of system should have an expedited process.
  - Projects that reduce emissions should have an expedited process.
  - Permitting processes should have a time certain timetable.
  - No environmental backsliding.
  - Need community participation in the process.
- Continue to discuss specific problem areas and potential solutions with stakeholders, government and communities; identify supply infrastructure bottlenecks and environmental challenges.
- “The devil is in the details” - small working groups can help bring focus to the discussions.
- These efforts should not duplicate local efforts already underway.
- Industry willing to participate in such forums; we can bring resources and expertise to the table.

Potential Solutions

- Conduct a State-wide survey of refinery permitting experiences; WSPA has already done work in this area.
- Issue is not rules, but the consistency and effectiveness with which they are applied; it is a process problem.
- CEC's consultant, ICF, came to that conclusion in 2003.
- Environmental progress has been strong; we must continue balancing the need for environmental improvements with the need for reliable, affordable energy supplies.
- A balanced approach to energy supply, environmental protection, and economic sustainability is key.

Petroleum Infrastructure Policy Opportunities

Must Establish:

- Clear Protocol for Project Data Requirements
- Approval Timelines on Infrastructure Projects
- Authority for Granting Ministerial Permits
- Streamlined Appeal Process
- Fair Criteria for Project Mitigation
- Authority for Categorical Exemptions
- Uniform "Best Practices" Guidelines

The CEC'S Role

- Clearly articulate need for energy infrastructure to balance environmental concerns and needs.
- Proactively engage in environmental regulation/policy debates where petroleum supply capacity may be reduced or actions result in unnecessarily high costs.
- Create a State-level Permitting Facilitator for energy infrastructure projects important to meeting CA's rising transportation fuel demand.
  - Collect best permitting practices from local governments and agencies.
  - Encourage agencies to adopt these practices.
  - Facilitator's intervention could be requested by project proponents when duplicative or counterproductive regulatory requirements endanger a project.

In Summary -What Do We Need?

Streamlined permitting that allows Refiners to:

- *Plan and fund economically attractive infrastructure projects more efficiently and with less uncertainty.*
- *Maximize production rates safely.*
- *Maintain adequate supply/demand balance.*
- *Reduce potential for shortage-induced price spikes.*

All while maintaining environmental protection